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NYT: Foundations Aim to Save Pensions in Detroit Crisis.

National and local philanthropic foundations have committed \$330 million toward a deal to avoid cuts to Detroit retirees' pensions and to save the Detroit Institute of Arts' renowned collection, federal mediators involved in the city's bankruptcy proceedings announced on Monday.

The plan was a first both in the foundation world, which has not been a source of money to shore up public-sector pensions in the past, and in municipal bankruptcy cases, experts said. It also offered the first indication of progress in the intense mediation with Detroit's creditors to resolve the city's financial crisis. Those talks have been proceeding under strict secrecy guidelines.

Nine foundations, many with ties to Michigan — including the Ford Foundation, the Kresge Foundation and the John S. and James L. Knight Foundation — have pledged to pool the \$330 million, which would essentially relieve the city-owned Detroit Institute of Arts museum of its responsibility to sell some of its collection to help Detroit pay its \$18 billion in debts. In particular, the foundation money would help reduce a portion of the city's obligations to retirees, whose pensions are at risk of being reduced in the bankruptcy proceedings. By some estimates, the city's pensions are underfunded by \$3.5 billion.

"The Wedding Dance," at the Detroit Institute of Arts, was valued at \$100 million to \$200 million.
Fabrizio Costantini for The New York Times

As part of the plan, which negotiators have been working on quietly for more than two months, the museum would be transferred from city ownership to the control of a nonprofit, which would protect it from future municipal financial threats. The foundations would stipulate that Detroit must put the money into its pension system, said Alberto Ibargüen, president of the Knight Foundation.

The unusual effort by the foundations was not the first instance of charitable groups' and high-profile figures' trying to help the ailing city. Previous contributors include Lloyd C. Blankfein, the chief executive of Goldman Sachs, and Warren E. Buffett, the billionaire investor, who attended an event with city and state leaders in November to announce a \$20 million initiative to help small businesses in Detroit.

But it is far from certain whether the new pledges will bring about a deal to save the museum while also helping the city meet its pension obligations, and several possible roadblocks remain. As much as \$500 million may be needed to protect the art from an auction, officials have said, so additional philanthropic donations are being sought. Detroit is also contending with some 100,000 creditors in its federal bankruptcy case, and some are expected to oppose the plan. Even if the notion were to proceed, it would not be enough to resolve the city's pension underfunding, but merely to ease it somewhat.

Moreover, the foundation deal would address only a portion of the larger bankruptcy puzzle, a vast array of debts, creditors and assets that must be rearranged before the city can emerge from the nation's largest municipal bankruptcy.

“There’s a lot of detail to work out here — it’s a moving target,” said Mariam C. Noland, president of the Community Foundation for Southeast Michigan, a 30-year-old philanthropy organization in Detroit that began rallying national foundations last fall after the federal judge mediating the bankruptcy case, Gerald E. Rosen, approached her with the idea.

Still, many people saw the proposal as a positive development, and perhaps as a sign that more agreements may be coming in a case that no one wants to see linger.

“When you start seeing first settlements come down the road, you’re seeing the dawn of a Chapter 9 plan that is to be confirmed,” said James E. Spiotto, an expert on federal municipal bankruptcy, known as Chapter 9.

Kevyn D. Orr, Detroit’s emergency manager, who led the city to file for bankruptcy, said he welcomed the foundation proposal but emphasized in a statement that many issues remained.

City pension officials praised the unusual approach being taken to shore up the pension funds that are essential to 20,000 city retirees and 10,000 current workers. “Any way the process can raise funds to meet its pension obligations, we’re in support of this,” said Bruce Babiarz, a spokesman for the pension system.

Among other creditors, many of whom declined to speak on the record because the private talks were continuing, the proposal drew a more mixed response.

Some saw it as appealing, if only because it would bring the city that much closer to a relatively speedy, consensual resolution of the bankruptcy. Others objected, saying that the deal appeared to give pensioners priority over some other creditors and that the city might get more for the art by selling it.

Last year, Mr. Orr’s office hired Christie’s to appraise a portion of the collection that included many of the museum’s masterpieces. The auction house said that selling this portion would generate \$454 million to \$867 million. A group of creditors, including unions and financial institutions, is scheduled to challenge the appraisal in bankruptcy court next week.

Even before Detroit filed for bankruptcy, the fate of the art collection — one of the few city assets that is both highly valuable and easily portable — became linked in the public mind with the fate of pensioners. Yes, the art is a cultural and historical treasure, the reasoning went, but is it more important than payments people rely on for food and bills? If selling the paintings could help pay those checks, shouldn’t the paintings be sold? Museum officials and supporters worried about the debate’s being framed in such a way and warned that the thinking was flawed and shortsighted.

Ms. Noland, the community foundation president, said a plan to help pensioners and protect the art began to form last fall when Judge Rosen, whom she knows, called her. His office “reached out to me and said: ‘We have an idea. What do you think about raising \$500 million?’ ” she said. “And I said, ‘Are you crazy?’ Actually, I didn’t say that — you don’t say that to a federal judge. I said, ‘Let me call some people I know.’ ”

Ms. Noland called a dozen foundations across the country — many with more substantial means than hers, which has about \$650 million in assets — and on Nov. 5, representatives of many of those foundations met in a conference room in Detroit’s federal court building to discuss how much they would be willing to contribute.

“It became a very attractive and persuasive idea,” Ms. Noland said.

Darren Walker, president of the Ford Foundation — the nation’s second-largest private foundation, with \$11 billion in assets — said that it was “unprecedented and monumental for philanthropies to undertake this kind of initiative,” but that “if there was ever a time when philanthropy should step up, this is it.” He said he was confident that the \$500 million could be raised, but warned that aside from raising the money and offering a way to “break the logjam,” the foundations had no other power to broker a deal.

When the idea was first proposed, foundations were not sure how to react. “It seemed like an enormous amount of money for an idea that nobody had thought through,” said Mr. Ibargüen, the Knight Foundation president. “I think nobody thought then — that day, that night — that we would be able to move this as fast as possible.”

Ultimately, the Knight Foundation committed \$30 million, the largest single sum it has ever pledged.

By RANDY KENNEDY, MONICA DAVEY and STEVEN YACCINOJAN. 13, 2014